

Message Text

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ORIGIN SS-25

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ARA - MR. SHLAUDEMAN

EB:JLKATZ

S/S - MR. LUERS

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O 231608Z OCT 74

FM SECSTATE WASHDC

TO AMEMBASSY CARACAS IMMEDIATE

C O N F I D E N T I A L STATE 233141

EXDIS

E.O. 11652: GDS

TAGS: ENRG ; ;

SUBJECT:NOTE VERBALE ON INCREASE IN GOV OIL TAX

REF: (A) STATE 230773, (B) CARACAS 10392

1. DEPARTMENT CONCURS IN CARACAS RECOMMENDATION THAT NOTE VERBALE CONSIST OF NUMBERED PARAGRAPHS TWO THROUGH FOUR AS SET OUT IN STATE 230773 WITH CORRECTION PARAGRAPH TWO AND REVISION PARAGRAPH FOUR. TEXT OF REVISED NOTE FOLLOWS.

2. QUOTE (COMPLIMENTARY OPENING)... AND HAS THE HONOR TO REFER TO THE ANNOUNCEMENT ON OCTOBER 1, 1974, BY THE MINISTER OF MINES AND HYDROCARBONS INCREASING THE INCOME TAX RATE ON PETROLEUM COMPANIES TO 63.5 PERCENT.

3. THE UNITED STATES GOVERNMENT IS CONVINCED THAT THE RECENT DRAMATIC INCREASES IN OIL PRICES ARE A MAJOR CAUSE OF THE PRESENT HIGH RATE OF INFLATION IN MOST COUNTRIES. ADDITIONAL TAXES ON OIL PRODUCTION WILL
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EXACERBATE THE ALREADY SEVERE PRESSURES ON THE INTER-

NATIONAL ECONOMY AND FINANCIAL SYSTEMS.

4. THE UNITED STATES GOVERNMENT PARTICULARLY REGRETS THE DECISION TO APPLY THE TAX RETROACTIVELY TO PRODUCTION FOR THE FIRST NINE MONTHS OF 1974. FURTHERMORE, THE RETROACTIVE APPLICATION OF A TAX INTRODUCES AN UNDESIRABLE

ELEMENT OF UNCERTAINTY INTO INTERNATIONAL MARKETS. THE NEW TAX BURDEN IMPOSED MAY PROVE TO BE TOO LARGE TO BE ABSORBED BY THE OIL COMPANIES. THE FACT REMAINS THAT THE COMPANIES ARE INDEED PASSING THE ADDITIONAL TAX BURDEN TO CONSUMERS IN WHOLE OR LARGE PART IN THE FORM OF HIGHER PRICES. SINCE ABOUT ONE-HALF OF VENEZUELAN OIL EXPORTS ARE SENT TO THE UNITED STATES THE BURDEN THUS IMPOSED ON THE AMERICAN CONSUMER IS EVIDENT. UNQUOTE.

5. WHEN DELIVERING THIS NOTE, AMBASSADOR SHOULD ORALLY ACKNOWLEDGE PRESIDENT PEREZ' LETTER DATED SEPTEMBER 19 AND STATE THAT WE ARE PREPARED TO HAVE SERIOUS DIALOGUE ON THIS MATTER.

7. AS OPENING DIALOGUE, AMBASSADOR SHOULD SEE PRESIDENT OR FOREIGN MINISTER, PRIOR TO NOVEMBER 1, IF POSSIBLE, TO MAKE POINTS IN PARAGRAPHS FIVE THROUGH NINE OF STATE 230773 AND LEAVE AIDE MEMOIRE WITH TEXT THOSE PARAGRAPHS. POINTS SHOULD BE INTRODUCED ORALLY AS FINDINGS THE U.S. GOVERNMENT MADE IN CONSIDERING RECENT VENEZUELAN STATEMENTS.

7. FYI. GIVEN DISTRIBUTION OF PEREZ' LETTER TO MEDIA AND OTHER MEMBERS OF UNITED NATIONS BEFORE PRESIDENT FORD RECEIVED IT, WE DO NOT WISH TO DIGNIFY LETTER BY MORE THAN SIMPLEST ORAL ACKNOWLEDGEMENT. WE RECOGNIZE EMOTIONAL CONTENT OF OIL PRICE ISSUES IN VENEZUELA. NEVERTHELESS, IT IMPERATIVE THAT GOV HAVE CLEAR UNDERSTANDING U.S. POSITION AND ANALYSIS WHEN OUR FINDINGS DIFFER FROM THEIR ASSERTIONS. WHILE WE DO NOT THINK IT WOULD BE PRODUCTIVE FORMALLY TO NEGOTIATE THESE ISSUES WITH GOV, WE BELIEVE LOW-KEY, CONFIDENTIAL

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TECHNICAL EXCHANGE OF VIEWS POTENTIALLY USEFUL ON AD HOC BASIS. END FYI. INGERSOLL

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Message Attributes

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